

FILED  
REGULATORY DIV.

Before the 01 SEP 14 PM 1 30

COMM. DIV.

TENNESSEE REGULATORY AUTHORITY

**IN RE: JOINT PETITION OF CROCKETT TELEPHONE  
COMPANY, INC., PEOPLES TELEPHONE COMPANY, WEST  
TENNESSEE TELEPHONE COMPANY, INC., AND THE  
CONSUMER ADVOCATE DIVISION OF THE OFFICE OF THE  
ATTORNEY GENERAL FOR THE APPROVAL AND  
IMPLEMENTATION OF EARNINGS REVIEW SETTLEMENT  
DOCKET NO. 99-00995**

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**REBUTTAL TESTIMONY  
OF  
ROBERT T. BUCKNER**

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**September 14, 2001**

1   **Q.     Please state your name for the record.**

2   A.           My name is Robert T. Buckner (“Terry”).

3

4   **Q.     What is the purpose of your testimony before the Tennessee Reg-**  
5       **ulatory Authority (“TRA”)?**

6   A.           The purpose of my testimony is to address the statements of  
7       AT&T witness Richard T. Guepe in his direct testimony.

8

9   **Q.     Do you agree with Mr. Guepe’s recommendation (See Guepe**  
10       **Direct Testimony, Page 4, Lines 19-20) that the Memorandum of**  
11       **Understanding signed by the TEC Companies and AT&T should**  
12       **be incorporated in an amended rate design?**

13  A.           No. Mr. Guepe contends that the Memorandum of Understanding  
14       “is proper rate design.” (See Guepe Direct Testimony, Page 5, Lines  
15       11-12.) He offers, however, no support for that conclusion. On  
16       January 12, 2000, the Telephone Electronics Corporation, Inc.  
17       (“TEC”) Companies: Crockett Telephone Company, Peoples  
18       Telephone Company and West Tennessee Telephone Company and  
19       the Consumer Advocate Division of the Office of the Attorney  
20       General (“CAPD”) filed a petition with the TRA for approval of and  
21       implementation of an earnings review settlement. The CAPD  
22       contends that this original settlement should be honored as the

1 product of good faith negotiations and the honest efforts of both  
2 parties. To do otherwise, would be an injustice to the TEC ratepayers  
3 from whom all of the revenues are derived; the ratepayers not AT&T  
4 should receive the benefit of a rate reduction. Moreover, the Pre-  
5 Hearing Officer ordered “that the request for approval of the  
6 Memorandum of Understanding be denied.”

7  
8 **Q. Do you agree with Mr. Guepe’s assertion that overearnings can**  
9 **only originate from access charges? (See Guepe Direct Testimony,**  
10 **Page 9, Lines 6-9.)**

11 A. No. Mr. Guepe’s assertion is premised on the idea that local  
12 services are priced well under cost, but that is not true and Mr. Guepe  
13 has not shown that it is. He relies on industry opinion, not facts, to  
14 support his argument.

15  
16 **Q. Do you agree with Mr. Guepe’s argument that, “local residential**  
17 **rates are . . . below cost?” (See Guepe Direct Testimony, Page 13,**  
18 **Footnote 4.)**

19 A. No. Mr. Guepe takes ill-founded opinion as truth and does not  
20 discuss or acknowledge the history behind the notion that local rates  
21 are subsidized by long distance rates. More than 50 years ago, when  
22 there was only one major telephone company in the country, AT&T,

1 the FCC established separations procedures that allocated common  
2 costs between local and long distance service, at a time when  
3 telephone service was primarily local and long distance service,  
4 infrequent and expensive. For decades, all the profit in the telephone  
5 industry came from local service. Those profits were used in research  
6 for long distance service without the local service side ever getting a  
7 return on that investment. In the 1970s and with little or no input  
8 from consumer organizations, the FCC arbitrarily changed the cost  
9 separations procedures so that a large portion of common cost, that  
10 had for decades been assigned to long distance, became assigned to  
11 local facilities. The change meant that local charges, which had been  
12 covering local costs for decades, were all of a sudden perceived as  
13 set well below cost. This new perception serves the interests of the  
14 providers, not the users.

15 In fact, there is recent history suggesting that local service paid for  
16 costs created by long distance service. The numbering schemes for  
17 area codes and central office codes of the original North American  
18 Numbering Plan ("NANP") were exhausted in the mid 1990s. The  
19 NANP has been quietly revised, and the changes are being  
20 implemented now. The reworking of the NANP weakens Mr.  
21 Guepe's claim that long-distance operations subsidize local service.  
22 The original NANP, which worked for 30 years, was a 10-digit

1        number, (NYN) NNX-XXXX. The first three numbers are the area  
2        code, the next three are the central office code and the last four are  
3        the specific numbers at home or business. The central office is the  
4        first control point between a telephone user and the network. The  
5        office distinguishes whether the call is long distance or local. The  
6        10-digit code made the distinction by limiting Y to zero or one and by  
7        limiting N to any digit from two to nine. X could range from zero to  
8        nine. If a customer dialed zero or one as the second digit, the call was  
9        long distance; otherwise, it was local. The NANP worked for 30  
10       years, but it had its limits: there could only be 128 area codes and 640  
11       central office codes inside an area code.

12                The growth in long-distance calling caused congestion and  
13        routing difficulties, and the easiest way to solve the problem was to  
14        expand the number of area codes through the adoption of a new 10-  
15        digit format, (NXX) NXX-XXXX. This simple change raises the  
16        amount of area codes to slightly less than 800. The amount of central  
17        office codes also increases to nearly 800, but the format means that  
18        area codes and central office codes can be identical. Thus, the second  
19        digit no longer distinguished between local and long distance. For  
20        consumers, the new format means that any long-distance call must  
21        use "1+" 10 digits, even if they are dialing within their own area code.  
22        For local exchange companies ("LECs"), the new format meant

1 reprogramming the entire population of central offices, a huge and  
2 costly task brought on by long distance markets.

3 .

4 **Q. Therefore, do you agree with Mr. Guepe's remedy (See Guepe**  
5 **Direct Testimony, Page 5, Lines 21-22) that access charges be**  
6 **reduced?**

7 A. Again, no. In the forecast of revenues for the three-year  
8 earnings period 1999-2001, \$1.1 million of the forecasted \$23.5  
9 million in access charges were forecasted from intrastate interLATA  
10 access charges. This amount includes all inter-exchange carriers  
11 ("IXCs") not just AT&T. Additionally, this amount includes all  
12 switched access rate elements. Further, this amount recognizes no  
13 costs for providing switched access by the TEC companies. To  
14 conclude that by reducing AT&T's access charges, with some access  
15 rate elements being reduced to zero, will "remedy the over-earnings"  
16 is just plain wrong. (See Guepe Direct Testimony, Page 5, Line 22.)  
17 Again, to reduce intrastate access charges would be an injustice to the  
18 TEC ratepayers from whom all of the revenues are derived and who  
19 merit the benefit of reduced rates.

20

21

22

1   **Q.   Consequently, you do not agree with Mr. Guepe (See Guepe**  
2       **Direct Testimony, Page 9, Line 6) that it is appropriate to reduce**  
3       **access charges now?**

4   **A.       Yes, that is correct. While Mr. Guepe offers a brief history of**  
5       access charge development, he neglects to mention that since nearly  
6       their inception, the Carrier Common Line Charge (“CCLC”) switched  
7       access rate element has been reduced through what is known as the  
8       “Megacom Order” (Tennessee Public Service Commission (“TPSC”)  
9       Docket U-87-7492). According to the TRA’s Declaratory Order  
10      found in Docket #97-07628, at pages 1-2:

11               In the Megacom Order, the TPSC determined that  
12               IXCs should maintain their contribution to the  
13               local network via access charges, but also  
14               recognized the importance of reasonable intrastate  
15               toll rates. To accomplish this, the TPSC  
16               implemented a mechanism to adjust the carrier  
17               common line charge (“CCLC”) rate, a component  
18               of access service, of LECs. These adjustments  
19               have historically resulted in reductions of the  
20               access charges that IXCs pay to LECs. The IXCs,  
21               in turn, pass these savings on to their customers  
22               through reduced intrastate toll rates.  
23

24               Therefore, additional reductions are unwarranted. As previously  
25               indicated, most of the forecasted access charge revenues are not  
26               received from AT&T in the intrastate jurisdiction. The only parties  
27               that will benefit significantly from reducing access charges now are

1 the long distance companies, i.e., AT&T, Sprint, CommuniGroup,  
2 VarTec, etc. Incidentally, Mr. Guepe's alluding to the TEC Companies  
3 long distance services as a significant competitor is without merit.  
4 Less than 2% of the TEC local exchange customers in Tennessee  
5 have an affiliated long distance company as their provider. This is  
6 indicative of the difficulty in gaining a long distance market share  
7 even for an affiliated company like VarTec, which originated in 1989.

8 It should be noted that in his testimony, Mr. Guepe makes no  
9 mention of any savings from his proposed access reductions being  
10 passed through to their customers in this docket.

11 While it is true that 74% of the forecasted TEC revenues are  
12 from access charges, it is not true as Mr. Guepe contends that "there  
13 is no *need* for high access charges." (See Guepe Direct Testimony  
14 Page 9, Line 24.) BellSouth's residential rates for comparable service  
15 areas to TEC is \$7.55 per month per their tariff A3.7. This rate is  
16 comparable to TEC's residential rates. BellSouth's local service  
17 revenues are 89% of their total intrastate revenues for the last twelve  
18 months ending May 2001. Conversely, TEC's local service revenues  
19 were forecasted to be only 23% of their total revenues. Therefore, if  
20 access charges are reduced now and residential local rates are set at  
21 "cost" in some future, rural universal service proceeding, where will  
22 the funding come from to keep TEC's rates comparable to their



1 BellSouth peers? In my opinion, it would be better to retain the  
2 access charge level now, and settle the matter for all independent  
3 local exchange companies in a rural universal service hearing.

4  
5 **Q. Do you agree with Mr. Guepe's statement that, "High access**  
6 **charges are a legacy of a bygone era?" (See Guepe Direct**  
7 **Testimony, Page 10, Line 3)**

8 A. According to his view of high in this proceeding, the answer is no.  
9 Mr. Guepe goes on to say that, "Long Distance calling is not the  
10 luxury of the few, but is a main staple of today's telecommunication  
11 usage." (See Guepe Direct Testimony, Page 10, Lines 4-5.) By the  
12 same token, local telephone service should not be a luxury of the few.  
13 The ratepayer is paying for increased subscriber line charges  
14 ("SLCs") from the interstate jurisdiction. The TEC companies have  
15 incurred reduced compensation for billing and collection services in  
16 the intraLATA market this year. Presently, there is considerable  
17 uncertainty about what the compensation from the total intraLATA  
18 jurisdiction will be in the year 2002 for the independent LECs in  
19 Tennessee. If BellSouth and the independent LECs reach an  
20 agreement for reduced access charge compensation, then future  
21 earnings will decline and BellSouth will receive a windfall.

22 Related to Mr. Guepe's assertions, that access charges are

1 needlessly high and from a bygone era, is the criticism that the  
2 existing rate design proposal makes no economic sense. (See Guepe  
3 Direct Testimony, Page 13, Line 5.) Given his logic, rural telephone  
4 service in itself makes no economic sense, but after decades of  
5 investment by families, communities and taxpayer funding through  
6 low cost loans from the REA, now the RUS, rural areas have  
7 telephone service on relative parity with their urban peers. As  
8 recently as 1980, multiparty service existed in parts of Tennessee, an  
9 unthinkable possibility given today's technology. Access charges  
10 have contributed to the development of a modern network for rural  
11 areas in Tennessee such as the FYI program and as previously noted  
12 quite significantly for the TEC companies. TEC, like any  
13 independent LEC in Tennessee, sought to comply with the FYI  
14 technology initiatives with the belief that their revenue stream would  
15 continue to be maintained. If Mr. Guepe's view of access charges is  
16 upheld, then significant rate increases to end-users for the  
17 independent companies are inevitable precluding any universal  
18 service mechanism.

19  
20 **Q. Are there any more comments about AT&T's participation in this**  
21 **docket?**

22 **A.** Yes. Since their long distance monopoly was ended, AT&T, like

1 any business subject to competition, has exercised many initiatives to  
2 keep and maintain their profits. Those initiatives include: paying  
3 special access charges to “cherry pick” business customers with high  
4 long distance minutes of use from the LECs networks; offering  
5 financial inducements to end-users to switch their long distance  
6 service to AT&T; lowering long distance rates to meet competitive  
7 pressures; advertising campaigns; optional calling plans; investments  
8 in related technologies; and legislative action. AT&T has been very  
9 successful both on a federal and state level in their legislative  
10 initiatives. AT&T has been de-regulated for some time and recently  
11 gained de-tariffed status on a federal level and in Tennessee as well.  
12 As a result, given proper notice to the customers, AT&T can raise  
13 their long distance rates at any time to cover their costs.  
14 Additionally, AT&T has circumvented regulatory agencies and  
15 negotiated access charge reductions with BellSouth for which only  
16 70% flowed back to the customers in reduced long distance rates. In  
17 fact, AT&T raised their long distance rates this year and thus has  
18 recouped a portion of the previous long distance reductions. The  
19 potential for a recurrence of an increase in future long distance rates  
20 remains. Consequently, AT&T’s recommendation can result in the  
21 TEC customers receiving less financial benefit, and higher long  
22 distance rates.

1           In summary, no other IXC's or BellSouth have intervened in  
2           this docket. Only AT&T, a de-regulated, de-tariffed company is  
3           attempting to divert revenues from three small regulated LECs in  
4           rural Tennessee, benefitting themselves rather than the ratepayers. In  
5           my opinion, their involvement in this docket is misplaced and an  
6           unfair attempt to manipulate the regulatory system to their benefit.  
7           Considering this, it is hoped that the TRA will continue to right the  
8           telecommunications playing field in this docket and future  
9           proceedings.

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11   **Q.   Does this conclude your testimony?**

12   **A.   Yes, it does.**

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BEFORE THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE

IN RE: JOINT PETITION OF CROCKETT )  
TELEPHONE COMPANY, INC., PEOPLES )  
TELEPHONE COMPANY, WEST TENNESSEE )  
TELEPHONE COMPANY, INC. AND THE )  
CONSUMER ADVOCATE DIVISION OF )  
THE ATTORNEY GENERAL FOR THE )  
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DOCKET NO. 99-00995

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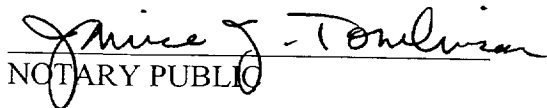
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I, Robert T. Buckner, Coordinator of Regulatory Analysts, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Rebuttal Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.



Robert T. Buckner

Sworn to and subscribed before me  
this 14<sup>th</sup> day of September, 2001.

  
NOTARY PUBLIC

My commission expires: 1/25/2003